

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-01 CEA-01 H-01 PRS-01 PA-01 USIA-06 INT-05 SAJ-01

/088 W

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R 191716Z DEC 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6919

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: ECON, EFIN, GW

SUBJECT: INDUSTRIAL ORDERS TREND DOWN, EXPORT ORDER

GROWTH DECLINES, INDUSTRIAL PRODUCTION DROP

CONTINUES -- GLOOMY FORECAST.

REFTEL: BONN 18384

1. AS AN INDICATOR OF WHAT LIES AHEAD, THE INDUSTRIAL ORDER DATA ARE NOT ENCOURAGING. IN VOLUME TERMS, THE TREND IS CLEARLY NEGATIVE. FOR THE SIX-MONTH PERIOD ENDING OCTOBER 1974, NEW INDUSTRIAL ORDERS WERE 5 PERCENT BELOW THE SAME PERIOD THE PREVIOUS YEAR. THIS REPRESENTS A DETERIORATION FROM THE NEGATIVE 2 PERCENT RATE

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REGISTERED IN THE PREVIOUS SIX-MONTH PERIOD. EVEN THOUGH

THE MONTH-TO-MONTH DATA CAN BE MISLEADING, THE MOST RECENT MONTHLY DATA CONFIRM THE CONTINUATION OF THE SEMIANNUAL TREND NOTED ABOVE.

2. EXPORT ORDERS ARE STILL REGISTERING POSITIVE GROWTH IN REAL TERMS, BUT AT A DECLINING RATE. AGAIN LOOKING AT THE SIX-MONTH PERIOD ENDING IN OCTOBER 1974, THE VOLUME OF EXPORT ORDERS WAS UP AT AN AVERAGE ANNUAL RATE OF 5 PERCENT AS COMPARED WITH THE 11 PERCENT AVERAGE OF THE PRECEDING SIX MONTH SPAN. HOWEVER, GIVEN STIFF AND ACCELERATING EXPORT PRICE HIKES (20 PERCENT ANNUAL RATE), THE FLATTENING OF THE EXPORT ORDER GROWTH CURVE IN TERMS OF VOLUME HAS NOT BEEN REFLECTED IN THE PACE OF EXPORT ORDERS IN TERMS OF CURRENT PRICES.

3. THE INDUSTRIAL ORDERS FROM DOMESTIC CUSTOMERS ARE DOWN IN REAL TERMS BY 9 PERCENT IN THE MAY-OCTOBER PERIOD OF 1974 AS COMPARED WITH 1973. THIS IS TWO PERCENTAGE POINTS MORE ON THE NEGATIVE SIDE THAN THE PREVIOUS SIX MONTHS' RATE, GIVING EVIDENCE OF A SOFT INTERNAL DEMAND SITUATION GROWING SOFTER.

4. THE INDUSTRIAL PRODUCTION INDEX (REAL TERMS, AGAIN) HAS BEEN DROPPING AND IN THE SIX MONTHS ENDING IN OCTOBER WAS DOWN 1.2 PERCENT FROM THE CORRESPONDING PERIOD LAST YEAR. THE THREE MOST RECENT MONTHS ARE OFF BY SOME 4 PERCENT FROM THE SAME MONTHS LAST YEAR.

5. COMMENT. INDUSTRIAL PRODUCTION IS THE KEY ELEMENT IN THE GERMAN GNP, HAVING A WEIGHT OF WELL OVER 50 PERCENT AND GREAT INFLUENCE ON THE SERVICES SECTOR. IN THE SECOND HALF OF 1974 GERMAN GNP PROBABLY WILL DECLINE BY 0.5 PERCENT, WHICH ROUGHLY FOLLOWS THE PATTERN IN INDUSTRIAL PRODUCTION NOTED IN PARA 4 ABOVE. THIS DEVELOPMENT IN TURN COULD SOMEWHAT BE FORESEEN IN THE PRECEDING MONTH'S INDUSTRIAL ORDER INTAKE, AS DESCRIBED IN PARA 1. SINCE THE MOST RECENT INDUSTRIAL ORDER

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DATA REFLECTS AN EVEN STEEPER NEGATIVE TREND, ONE COULD ASSUME THAT FIRST HALF 1975 INDUSTRIAL PRODUCTION AND CONSEQUENTLY GNP WILL BE NEGATIVE TO A GREATER DEGREE THAN IN THE LAST HALF OF 1974. SINCE THE DATA IS SO TENTATIVE, ONE CANNOT YET VENTURE TO QUANTIFY THE FORECAST FOR 1975 ON THIS BASIS ALONE (A FULL GNP FORECAST WILL FOLLOW BY SEPTEL). HOWEVER, IT DOES SEEM THAT GNP GROWTH WILL LIKELY BE NEGATIVE IN THE FIRST HALF 1975. THE RECENTLY ANNOUNCED ECONOMIC MEASURES PLUS OTHER SCHEDULED EXPANSIONARY STEPS WILL PROBABLY NOT BE ABLE TO CHANGE THE FIRST HALF 1975 PICTURE SUFFICIENTLY DUE TO THE LAGS INVOLVED BEFORE IMPACT IS FELT. THE MOST PESSIMISTIC PUBLIC FORECAST SO FAR -- THAT OF THE COUNCIL OF ECONOMIC EXPERTS (SEE REFTTEL) OF 2.5 PERCENT (ZERO LIMITED OFFICIAL USE

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GROWTH IN THE FIRST HALF AND 3.5 PERCENT IN THE SECOND) SEEMS THEREFORE LIKELY TO BE ON THE HIGH SIDE. THIS

IMPRESSION WAS CONFIRMED TO AN EMBOFF BY A LEADING MEMBER  
OF ONE OF THE TOP ECONOMIC RESEARCH INSTITUTES.  
THE LATEST MONTHLY REPORT OF THE BUNDESBANK, WHICH SO  
FAR HAS BEEN EMPHASIZING THE POSITIVE SIDE OF THINGS,  
ALO NOW REFLECTS A LESS OPTIMISTIC UNDERTONE.  
CASH

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## Message Attributes

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**Disposition Date:** 28 MAY 2004  
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**TAGS:** ECON, EFIN, GE  
**To:** STATE  
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